

PERAC AUDIT REPORT



Massachusetts Housing Finance Agency Employees' Contributory Retirement System



JAN. 1, 2011 - DEC. 31, 2013



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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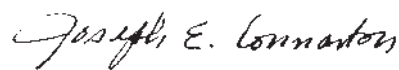
March 6, 2015

The Public Employee Retirement Administration Commission has completed an examination of the Massachusetts Housing Finance Agency Employees' Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2011 to December 31, 2013. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

We commend the Massachusetts Housing Finance Agency Employees' Retirement Board for the exemplary operation of the system.

In closing, I acknowledge the work of examiners William Walsh, Sam O'Brien and Jim Tivnan who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2013	2012	2011
Net Assets Available For Benefits:			
Cash	\$1,161,926	\$579,196	\$464,894
Fixed Income Securities (at book value)	11,227,869	13,490,901	15,770,657
Pooled Domestic Equity Funds	41,856,697	33,012,543	31,090,079
Pooled Global Equity Funds	12,663,891	11,472,701	3,186,878
Pooled Domestic Fixed Income Funds	16,028,309	19,196,283	16,564,351
Pooled International Fixed Income Funds	3,813,861	0	0
Pooled Alternative Investment Funds	11,900,995	9,675,643	8,920,221
Pooled Real Estate Funds	9,724,523	7,666,978	7,208,750
Interest Due and Accrued	75,295	90,676	101,684
Accounts Receivable	37,881	35,923	32,038
Accounts Payable	(619,763)	(230,747)	(157,653)
Total	<u>\$107,871,486</u>	<u>\$94,990,096</u>	<u>\$83,181,899</u>
Fund Balances:			
Annuity Savings Fund	\$34,196,053	\$33,355,070	\$32,728,017
Annuity Reserve Fund	7,040,892	6,214,830	5,162,819
Pension Fund	5,179,219	4,222,124	3,790,195
Military Service Fund	0	0	0
Expense Fund	0	0	0
Pension Reserve Fund	61,455,322	51,198,072	41,500,868
Total	<u>\$107,871,486</u>	<u>\$94,990,096</u>	<u>\$83,181,899</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2011)	\$31,292,376	\$4,427,104	\$2,895,274	\$0	\$0	\$40,822,300	\$79,437,054
Receipts	3,153,437	138,055	3,413,797	0	817,380	671,631	8,194,299
Interfund Transfers	(1,317,138)	1,310,201	0	0	0	6,937	0
Disbursements	(400,658)	(712,540)	(2,518,876)	0	(817,380)	0	(4,449,455)
Ending Balance (2011)	32,728,017	5,162,819	3,790,195	0	0	41,500,868	83,181,899
Receipts	2,780,031	172,869	3,487,556	0	892,591	9,613,157	16,946,204
Interfund Transfers	(1,877,667)	1,793,620	0	0	0	84,047	0
Disbursements	(275,311)	(914,478)	(3,055,627)	0	(892,591)	0	(5,138,007)
Ending Balance (2012)	33,355,070	6,214,830	4,222,124	0	0	51,198,072	94,990,096
Receipts	2,981,770	183,803	4,275,190	0	1,096,368	10,236,194	18,773,325
Interfund Transfers	(1,668,897)	1,647,845	(5)	0	0	21,057	0
Disbursements	(471,891)	(1,005,586)	(3,318,091)	0	(1,096,368)	0	(5,891,935)
Ending Balance (2013)	\$34,196,053	\$7,040,892	\$5,179,219	\$0	\$0	\$61,455,322	\$107,871,486

STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2013	2012	2011
Annuity Savings Fund:			
Members Deductions	\$2,795,449	\$2,691,103	\$2,778,914
Transfers from Other Systems	80,985	209	180,873
Member Make Up Payments and Re-deposits	55,835	58,906	121,572
Investment Income Credited to Member Accounts	<u>49,501</u>	<u>29,812</u>	<u>72,079</u>
Sub Total	<u>2,981,770</u>	<u>2,780,031</u>	<u>3,153,437</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>183,803</u>	<u>172,869</u>	<u>138,055</u>
Sub Total	<u>183,803</u>	<u>172,869</u>	<u>138,055</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	343,239	318,178	257,439
Received from Commonwealth for COLA and Survivor Benefits	4,816	0	0
Pension Fund Appropriation	3,927,135	3,169,378	3,156,358
Recovery of 91A Overearnings	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>4,275,190</u>	<u>3,487,556</u>	<u>3,413,797</u>
Military Service Fund:			
Sub Total	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Investment Income Credited to the Expense Fund	<u>1,096,368</u>	<u>892,591</u>	<u>817,380</u>
Sub Total	<u>1,096,368</u>	<u>892,591</u>	<u>817,380</u>
Pension Reserve Fund:			
Interest Not Refunded	3,962	1,443	383
Excess Investment Income	<u>10,232,231</u>	<u>9,611,713</u>	<u>671,248</u>
Sub Total	<u>10,236,194</u>	<u>9,613,157</u>	<u>671,631</u>
Total Receipts, Net	<u>\$18,773,325</u>	<u>\$16,946,204</u>	<u>\$8,194,299</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2013	2012	2011
Annuity Savings Fund:			
Refunds to Members	\$329,573	\$275,311	\$224,855
Transfers to Other Systems	<u>142,317</u>	<u>0</u>	<u>175,803</u>
Sub Total	<u>471,891</u>	<u>275,311</u>	<u>400,658</u>
Annuity Reserve Fund:			
Annuities Paid	1,005,586	914,478	712,540
Sub Total	<u>1,005,586</u>	<u>914,478</u>	<u>712,540</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	3,269,434	2,799,956	2,265,808
Survivorship Payments	0	130,663	130,569
Accidental Disability Payments	0	74,708	73,958
3 (8) (c) Reimbursements to Other Systems	<u>48,657</u>	<u>50,301</u>	<u>48,541</u>
Sub Total	<u>3,318,091</u>	<u>3,055,627</u>	<u>2,518,876</u>
Expense Fund:			
Board Member Stipend	12,000	12,000	12,750
Salaries	234,012	228,718	217,364
Legal Expenses	7,990	4,260	12,894
Travel Expenses	7,182	9,405	3,042
Administrative Expenses	12,772	7,835	7,188
Professional Services	12,730	17,000	26,150
Actuarial Services	11,225	0	0
Accounting Services	17,000	0	0
Education and Training	2,730	3,530	1,380
Management Fees	594,726	438,502	379,972
Custodial Fees	86,767	64,405	55,222
Consultant Fees	70,000	61,667	57,500
Rent Expenses	25,220	31,135	30,419
Service Contracts	0	12,125	11,550
Fiduciary Insurance	2,014	2,011	1,949
Sub Total	<u>1,096,368</u>	<u>892,591</u>	<u>817,380</u>
Total Disbursements	<u>\$5,891,935</u>	<u>\$5,138,007</u>	<u>\$4,449,455</u>

INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,			
	2013	2012	2011
Investment Income Received From:			
Cash	\$163	\$259	\$395
Fixed Income	383,560	549,285	594,828
Miscellaneous Income	350	0	0
Pooled or Mutual Funds	989,000	698,938	788,648
Commission Recapture	0	0	7,515
Total Investment Income	<u>1,373,073</u>	<u>1,248,483</u>	<u>1,391,387</u>
Plus:			
Realized Gains	704,024	829,624	345,721
Unrealized Gains	14,292,619	12,110,849	9,309,005
Interest Due and Accrued - Current Year	75,295	90,676	101,684
Sub Total	<u>15,071,938</u>	<u>13,031,149</u>	<u>9,756,410</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	(21,852)	(8,751)	(14,556)
Realized Loss	(334,687)	(152,461)	(541,083)
Unrealized Loss	(4,435,892)	(3,309,751)	(8,794,258)
Interest Due and Accrued - Prior Year	(90,676)	(101,684)	(99,138)
Sub Total	<u>(4,883,107)</u>	<u>(3,572,646)</u>	<u>(9,449,035)</u>
Net Investment Income	<u>11,561,903</u>	<u>10,706,986</u>	<u>1,698,762</u>
Income Required:			
Annuity Savings Fund	49,501	29,812	72,079
Annuity Reserve Fund	183,803	172,869	138,055
Expense Fund	1,096,368	892,591	817,380
Total Income Required	<u>1,329,672</u>	<u>1,095,273</u>	<u>1,027,514</u>
Net Investment Income	<u>11,561,903</u>	<u>10,706,986</u>	<u>1,698,762</u>
Less: Total Income Required	<u>1,329,672</u>	<u>1,095,273</u>	<u>1,027,514</u>
Excess Income To The Pension Reserve Fund	<u>\$10,232,231</u>	<u>\$9,611,713</u>	<u>\$671,248</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2013		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$1,161,926	1.1%
Fixed Income Securities (at book value)	11,227,869	10.4%
Pooled Domestic Equity Funds	41,856,697	38.6%
Pooled Global Equity Funds	12,663,891	11.7%
Pooled Domestic Fixed Income Funds	16,028,309	14.8%
Pooled International Fixed Income Fund	3,813,861	3.5%
Pooled Alternative Investment Funds	11,900,995	11.0%
Pooled Real Estate Funds	9,724,523	9.0%
Grand Total	\$108,378,072	100.0%

For the year ending December 31, 2013, the rate of return for the investments of the Massachusetts Housing Finance Agency Employees' Retirement System was 11.36%. For the five-year period ending December 31, 2013, the rate of return for the investments of the Massachusetts Housing Finance Agency Employees' Retirement System averaged 11.25%. For the 29-year period ending December 31, 2013, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Massachusetts Housing Finance Agency Employees' Retirement System was 7.73%.

The composite rate of return for all retirement systems for the year ending December 31, 2013 was 15.57%. For the five-year period ending December 31, 2013, the composite rate of return for the investments of all retirement systems averaged 12.13%. For the 29-year period ending December 31, 2013, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.49%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Massachusetts Housing Finance Agency Employees' Retirement System submitted the following supplementary investment regulations, which were approved by the Public Employee Retirement Administration Commission.

December 14, 2011

In relation to the investment of the Massachusetts Housing Finance Agency Employees' Retirement System ("System") in Columbia Trust U.S. High Yield Bond Fund ("Fund"), by virtue of its investment in Columbia Trust U.S. High Yield Bond Fund A ("Sub-Fund"), the following will apply. The investment objective of the Fund is to seek to generate strong risk-adjusted returns over a full market cycle by targeting the maximum value for risks that are taken and striving for strong total return. The Fund will invest its net assets primarily in high-yield debt instruments.

840 CMR 21.01(3): Futures contracts will be allowed notwithstanding the limits set forth herein to the extent that they will be used for hedging purposes or as a substitute for actual securities in cases where the derivative instrument is a more efficient means of gaining exposure to the underlying securities.

840 CMR 21.01(6): Restricted stock will be allowed notwithstanding the limits set forth herein to the extent that restricted stock is received in the context of bankruptcy restructuring.

840 CMR 16.07(2): This section shall be deemed to be met provided that a representative of the Fund meets annually with the Board.

840 CMR 16.07(4): The requirements set forth herein shall be deemed to have been met provided that the Ameriprise Trust Company (the "Trustee") or its delegate promptly notify the System with respect to personnel changes involving Jennifer Ponce de Leon, the portfolio manager of the Fund.

840 CMR 17.02 and 17.03: The Trustee shall be deemed to have met the requirements set forth herein with respect to fiduciary duty and the Code of Ethics for Fiduciaries provided that it complies with its fiduciary obligations and responsibilities set forth in the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and complies with a Code of Ethics and Code of Conduct that is at least as stringent as is required by the Investment Advisers Act of 1940, as amended, even though the Trustee is not required to be registered as an investment adviser under that act.

840 CMR 17.04(1)-(7) and (9)-(10): The requirements set forth herein shall apply only to the extent that these standards are not addressed by the fiduciary obligations and responsibilities set forth in ERISA to which the Trustee is subject with respect to all investors in the Fund, which is a pooled investment vehicle.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

May 12, 2011

16.07(4), 17.04(3)(b) & 21.01 (6)

The Massachusetts Housing Finance Agency Retirement Board is authorized to invest in RS Global Natural Resources Fund Class Y. 840 CMR 16.07(4) will not apply to the extent that the Board is notified in a timely manner of all key staffing changes at the same time as other investors in the mutual fund. 840 CMR 17.04(3)(b) will not apply to the extent that RS Investments considers the appropriateness and suitability of all investments relative to the objectives of the mutual fund rather than for any individual client. 840 CMR 21.01(6) does not apply since the Fund's prospectus permits possible use of lettered or restricted stock.

June 16, 2009

16.08

In accordance with Investment Guideline 99-2, the Massachusetts Housing Finance Agency Employees' Retirement System is authorized to make modest modifications to its two index fund products managed by State Street Global Advisors. In order to maintain daily liquidity, the System is transferring assets from the versions of SSgA's TIPS Index Fund and Russell 1000 Growth Index Fund that allow securities lending to versions that do not permit lending.

March 16, 2009

(1) Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Massachusetts Housing Finance Agency Employees' Retirement Board may invest funds of the Massachusetts Housing Finance Agency Employees' Retirement System (the "System") in the fund known as The Realty Associates Fund IX (consisting of Realty Associates Fund IX Corporation and The Realty Associates Fund IX, L.P., collectively, the "Fund"), and while the assets of the System are so invested, the assets of the System shall be deemed to include, for purposes of applying the rules set forth in 840 CMR 16.00 et seq., 17.00 et seq., and 840 CMR 21.01, the System's interest in the Fund but not any of the underlying assets of the Fund; provided that, at all times, either (A) less than twenty-five percent (25%) of each class of equity interest in the Fund is held by "benefit plan investors" (within the meaning of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and the regulations promulgated thereunder), or (B) the Fund qualifies as a "venture capital operating company" and/or "real estate operating company" within the meaning of ERISA and the regulations promulgated thereunder.

(2) The limitations and restrictions of 840 CMR Section 19.01(6) shall not apply to the Fund for the two-year period commencing on the date of the Fund's initial investment.

August 15, 2008

Notwithstanding the provisions of any statute or regulations of the Public Employee Retirement Administration Commission to the contrary, including the provisions of 840 CMR 21.01(2)(3)(4) and (5), the Massachusetts Housing Finance Agency Retirement Board is hereby granted an exemption from restrictions on investment and may invest a portion of the funds of the

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

Massachusetts Housing Finance Agency Retirement System with Munder Capital as sub-advisor for Comerica Bank in the Munder International Small-Cap Collective Fund.

March 24, 2008

16.08

In accordance with Investment Guideline 99-3, the Massachusetts Housing Finance Agency Retirement Board is authorized to invest in Ascent Venture Partners V. The Board has been a satisfied investor in Ascent Venture Partners IV. The management team and strategy are unchanged and Ascent Venture Partners has submitted an updated Exemption Application.

May 29, 2007

17.03

Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Massachusetts Housing Finance Agency Retirement Board may invest funds of the Retirement System (the "System") in the fund known as the Institutional Retirement Trust (IRT) International Equity Trust (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), taking into account ERISA Section 408(b)(8) as well as other statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, Prohibited Transaction Class Exemption 91-38, and other available class exemptions.

April 20, 2007

16.08

In accordance with Investment Guideline 99-2, the Massachusetts Housing Finance Agency Retirement Board may modify its domestic equity index mandate with State Street Global Advisors. Having been a satisfied investor in SSgA's Russell 1000 Value Index Fund, the Board will now also invest in the SSgA Russell 1000 Growth Index Fund. After a review of possible other providers of this index mandate, the Board and its consultant have determined that the SSgA fund is the most cost-effective and efficient means to accomplish its investment strategy. Rather than have a single investment in a Russell 1000 Index fund, the Board will maintain separate investments in the Growth and Value sub-indices in order to accomplish opportunistic over and under-weights in the two styles.

April 10, 2007

16.08

The Massachusetts Housing Finance Agency Retirement Board is authorized to invest in State Street Global Advisors' Treasury Inflation Protected Securities (TIPS) Fund.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

December 19, 2003

16.08

In accordance with Investment Guideline 99-3, the Massachusetts Housing Finance Agency Retirement System is authorized to invest in Ascent Venture Partners IV, L.P. The System has had a satisfactory relationship and favorable investment results in its investment in Ascent's two prior partnerships.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Massachusetts Housing Finance Agency Employees' Retirement System member unit employees deemed eligible by the retirement board.

ADMINISTRATION

There are 105 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC.

Group I:

General employees, including clerical, administrative, technical and all other employees not otherwise classified.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

In addition, members of Group I who join the system on or after April 2, 2012 will have their withholding rate reduced to 6 % after achieving 30 years of creditable service.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

There is no mandatory retirement age for employees in Group I.

SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group I.

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group I.

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.
- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group I employees who retire at or after age 65. A .1% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group I employees who retire at or after age 67. A .15% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group I employees who retire at or after age 67. A .125% reduction is applied for each year of age under the maximum age for the member's group.

DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

NOTES TO FINANCIAL STATEMENTS (Continued)

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, s.6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

Retirement Allowance: For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group I who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$ 797.64 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of 774.36 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

NOTES TO FINANCIAL STATEMENTS (Continued)

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is \$9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is \$12,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group I who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to \$6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of \$1,000. For many years the COLA base was calculated based upon the first \$12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

NOTES TO FINANCIAL STATEMENTS (Continued)

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. If a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-ration will not be undertaken. This is because such a person will receive a separate retirement allowance from each system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board retains an investment consultant to closely monitor the implementation and performance of their investment strategy and advise them of the progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

NOTES TO FINANCIAL STATEMENTS (Continued)

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Massachusetts Housing Finance Agency Employees' Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission:

Membership

April 1, 2010

Any individual who is employed eighteen and three quarters (18 3/4) or more hours per week as a regular full or part time employee as defined by the Massachusetts Housing Finance Agency's Human Resources Manual shall become a member of the Massachusetts Housing Finance Agency Employees' Retirement System ("System") at the time of hire upon completion and acceptance of an enrollment form by the System. Upon becoming a member of the System, a member will maintain his/her status of being a member in service and continue contributing to the System and accruing additional creditable service, consistent with the Board's creditable service regulation even if his/her work hours fall below the minimum requirement of 18¾ hours per week.

Individuals who are employed less than eighteen and three quarters hours (18¾) shall not be eligible for membership in the System. Furthermore, any person whose salary is under \$5,000 per calendar year will not be eligible for membership.

Creditable Service

April 1, 2010

Members of the Massachusetts Housing Finance Agency Employees' Retirement System ("System") shall receive creditable service, in whole month increments, consistent with this regulation in the following manner:

Full Time Member:

- For a member in service who is employed in a full-time capacity, he/she will receive one (1) month of creditable service for each full month for which the employee receives regular compensation and remits the appropriate contributions to the System, with said service not to exceed one (1) year of creditable service in any calendar year.

Part-Time Member:

- For a member in service who is employed in a part-time capacity throughout his/her entire career, he/she will receive one (1) month of creditable service for each full month for which the employee receives regular compensation and remits the appropriate contributions to the System, with said service not to exceed one (1) year of creditable service in any calendar year.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Member Works in Both a Full Time and Part-Time Capacity:

- For a member who has rendered membership service in the Massachusetts Housing Finance Agency Employees' Retirement System in both a full-time and part-time capacity, the member shall receive creditable service as follows:
 - If the member is working in a full-time capacity and reduces to part-time capacity, all membership service rendered will be credited as full-time.
 - If the member is working in a part-time capacity, increases to full-time capacity and remains in a full-time capacity until the time of resignation or retirement, all part-time membership service will be prorated based on the full-time equivalent.
- Notwithstanding the foregoing, part-time service will only be prorated for service rendered after the adoption of this Regulation. Any part-time service rendered prior to the adoption of this regulation will be credited as full-time.

Member Buying Back Prior Service:

- Any member purchasing past part-time service rendered for Massachusetts Housing Finance Agency shall have said service prorated based on a full-time equivalent. Members may only purchase prior non-membership (a person employed as an intern or temporary employee on MHFA's payroll) service rendered for Massachusetts Housing Finance Agency.

The effective date of this Regulation is April 1, 2010. It is important to note that all prior service rendered and/or purchased prior to the enactment of this Regulation will be credited as full-time.

Travel Regulations:

The Massachusetts Housing Finance Agency Employees' Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulations available upon written request, and are also available on the PERAC website <http://www.mass.gov/perac>

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Treasurer who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Andris Silins, Chairman

Appointed Member: Ronald Homer Until a successor is appointed

Elected Member: Antonio Torres Term Expires: 06/30/15

Elected Member: Michael Fitzmaurice Term Expires: 12/10/16

Appointed Member: Paul T. Hynes Term Expires: 12/31/17

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

The retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts.

Amity Insurance provides coverage to a limit of \$50,000,000 under a master MACRS sponsored policy, which is issued through Travelers Casualty & Surety Co. of America. This coverage includes a \$50,000 deductible. A separate fidelity coverage pertaining to ERISA/Crime to a limit of \$1,000,000 is issued through Travelers Casualty and Surety Company, with a deductible of \$10,000.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Stone Consulting Inc. as of January 1, 2013.

The actuarial liability for active members was	\$77,788,852
The actuarial liability for retired and inactive members was	<u>41,307,201</u>
The total actuarial liability was	\$119,096,053
System assets as of that date were	<u>94,975,675</u>
The unfunded actuarial liability was	<u><u>\$24,120,378</u></u>
 The ratio of system's assets to total actuarial liability was	 79.7%
As of that date the total covered employee payroll was	\$28,044,247

The normal cost for employees on that date was 9.2% of payroll

The normal cost for the employer was 0.1% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 7.875% per annum
 Rate of Salary Increase: 5.000% per annum grading down to 3.50%

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2013

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2013	\$94,975,675	\$119,096,053	\$24,120,378	79.7%	\$28,044,247	86.0%
1/1/2011	\$79,405,677	\$102,618,455	\$23,212,778	77.4%	\$29,743,985	78.0%
1/1/2009	\$53,530,185	\$82,086,118	\$28,555,933	65.2%	\$28,475,479	100.3%
1/1/2007	\$64,120,680	\$67,889,654	\$3,768,974	94.4%	\$25,561,684	14.7%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Retirement in Past Years										
Superannuation	1	5	5	8	4	1	4	10	9	8
Ordinary Disability	0	0	0	0	0	0	0	0	0	0
Accidental Disability	0	0	0	0	0	0	0	0	0	0
Total Retirements	1	5	5	8	4	1	4	10	9	8
Total Retirees, Beneficiaries and Survivors	77	82	87	91	95	96	98	108	116	122
Total Active Members	345	337	337	344	349	357	354	329	328	326
Pension Payments										
Superannuation	\$1,490,192	\$1,545,096	\$1,721,771	\$1,831,558	\$1,911,789	\$2,010,784	\$1,955,747	\$2,265,808	\$2,799,956	\$3,049,615
Survivor/Beneficiary Payments	13,084	13,549	24,099	56,106	107,032	124,195	126,218	130,569	130,663	144,361
Ordinary Disability	14,523	14,883	15,243	15,856	0	0	0	0	0	0
Accidental Disability	68,918	69,638	70,358	71,078	71,798	72,518	73,238	73,958	74,708	75,458
Other	615	47,984	26,172	29,604	38,060	41,119	44,540	48,541	50,301	48,657
Total Payments for Year	\$1,587,332	\$1,691,150	\$1,857,643	\$2,004,202	\$2,128,679	\$2,248,616	\$2,199,743	\$2,518,876	\$3,055,627	\$3,318,091

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 – LEASED PREMISES

The Massachusetts Housing Finance Agency Retirement Board reimburses the Massachusetts Housing Finance Agency for its' portion of the Finance Agency's leased office space located at One Beacon Street, Boston, MA 02108. Costs covered in this lease agreement include rent, operating cost, real estate taxes, electricity and parking.

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